CHAPTER IV

THE BALANCE OF TRADE AND THE BALANCE OF ACCOUNTS:
THE STATISTICS OF FOREIGN TRADE AND THEIR INTERPRETATION

In the inland trade of modern commercial countries, the use of metallic coinage in commercial transactions has been reduced to a minimum. In foreign trade this tendency is carried on still further. International trade is carried on almost entirely without the passing of money; it is like a return to the system of barter. Every country exports just as much as is required for its imports and imports just as much as it can buy with its exports.

It is obvious that this must be so, because if any nation were importing persistently more than it exported and paying for the balance every year in gold, its gold supply would soon be diminished. The result, according to the quantity theory of money, would be general fall of prices in that country. This would check imports because the foreign merchants would not sell in a country where prices are low; it would on the other hand give an impetus to exports, because prices being low foreign merchants will buy in it. The result would be to redress the balance of trade by reducing imports and increasing exports. It is therefore impossible for any country to be always importing more than it exports, or to be exporting more than it imports. The very fact of an excess either way would tend to check itself.

But on examining the actual customs returns of exports and imports of any country we find that they do not seem to bear out this law. On the contrary the customs return of England show that she imports annually £ 150 millions more than she exports. While in the case of India there is normally an average excess of about 70 crores every year. Practically every country has either an excess of exports or an excess of imports. This apparent normal excess of imports in some cases and exports in others is squared by some other items of indebtedness between nations. These items though they do not appear in the customs statistics as goods are nevertheless effective payments for goods. When we say that the total imports of a country must be equal to the total exports, we take into account not only the commodity imports and commodity exports which are duly recorded in the customs statistics as they pass in and out of the country but also invisible imports and invisible exports which do not pass through the customs offices and are therefore unrecorded.

The "Balance of Trade" is a statement of the commodity imports and commodity exports which are recorded in the official statistics. It shows the relation between the value of imports and the value of exports in terms of commodities. The exports and imports of a country as shown by the official statistics are hardly ever equal. The balance of trade lies some times on the side of imports and sometimes on the side of exports. An excess of exports is taken as indicating a

favourable balance and an excess of imports is taken as indicating an unfavourable balance. The terms favourable and unfavourable are a survival of the Mercantilist doctrine which considered an excess of exports as desirable because it would draw in the precious metals to pay for the excess and which considered an excess of imports as undesirable because it would cause the shipping of specie to pay for the excess. The terms favourable balance and unfavourable balance do not imply in themselves that either condition is desirable but only expressed the position of the foreign exchange.

The balance of trade of any particular country does not include all the credits and debits of a country. It sets forth only the recorded, visible and tangible exports and imports. To obtain a complete view of the total debits and total credits, we must look into the "Balance of Accounts", or the "Balance of Indebtedness" as it is sometimes called. It contains all the visible and invisible, the recorded and the unrecorded items of a country's imports and exports.

Balance of Accounts

Debtor	Creditor
1. Goods received	1. Goods sent.
2. Services received	2. Services rendered.
3. Specie received	3. Specie sent.
4. Capital Transactions	4. Capital transactions

1) Goods:- Under this heading are included all the commodity imports and commodity exports just as they pass in or out of the customs frontier. The Balance of Trade as drawn up by the customs officials and presented to the world consist entirely of those visible, tangible goods.

2) Services:- They are rendered by the members of one nation to those of another. Unlike ~~Warlike~~ goods they have no corporeal existence. They therefore escape the customs system and are not recorded in the statistics of foreign trade. Of these services there are several kinds. For example, services of transport, insurance services, services of bankers, boarding expenses of foreign visitors to the country, remittances to the home country by emigrants, etc.

A country may export services which however, are not recorded in its trade returns and it may import in exchange for its services commodities which are recorded as they pass through the customs offices. On account of this discrepancy the imports into the country are greater than its exports as shown by the 'Balance of Trade'. The services are thus invisible exports while the goods are visible imports, the former invisible and the latter visible in the balance of trade.

3) Specie:- Imports and exports of specie do not find a place in the balance of trade of a country. Yet they constitute important items in the foreign trade of most

countries. The excess of exports from a country may be partly offset by the imports of specie as in India which absorbs on an average about 25 million pounds worth of gold and silver of half that value.

4) Capital Transactions:- Capital transactions are simply import or export of capital. They are dealings in securities, such as Government bonds and corporation stocks. These dealings take place as between the nationals of one country and those of another. Capital transactions may be considered under the following heads:

i) ~~Lands~~ Loans are given or taken. Probably the largest single item of invisible international indebtedness is due to the flotation and repayment of foreign debts. The effect of international borrowing on the balance sheet of nations is briefly this: When a loan is raised, say in London for the construction of an Indian railway, the amount of the loan is not exported in boxes of gold to the borrowing country. As a rule the bulk of the money never leaves England, but is simply placed to the credit of the Indian Government or Company in the books of the Bank of England from which payments are made to English Engineers and manufacturers who have supplied the goods. Thus the loan is given in the form of goods which appear in the customs returns of the exports of the lending country without any corresponding entry of imports in payment thereof. Similarly in the borrowing country these goods will be entered on the imports side but

there will be no entry on the exports side. But the visible exports in the lending country will be balanced by the invisible imports of the evidences of debt, such as the securities; and the visible imports in the borrowing country will be balanced by the invisible exports of the securities.

ii) Interest paid or received. In subsequent years the debtor country will export goods in payment of interest on the loan and import the invisible interest coupons while the creditor country will import goods on account of the interest due to it while it will export the invisible interest coupons.

iii) Repayment of loans. When the loans come to be repaid there will be an excess of exports from the debtor country and an excess of imports in the creditor country. These items in each country will be balanced by the invisible and the unrecorded imports and exports of their securities.

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